

ATLANTIC PERSPECTIVE

A year-end review of
economic conditions
in 1984 with an
outlook for 1985



PHOTO BY GREG LOCKE

Prepared by **APEC** atlantic provinces
economic council

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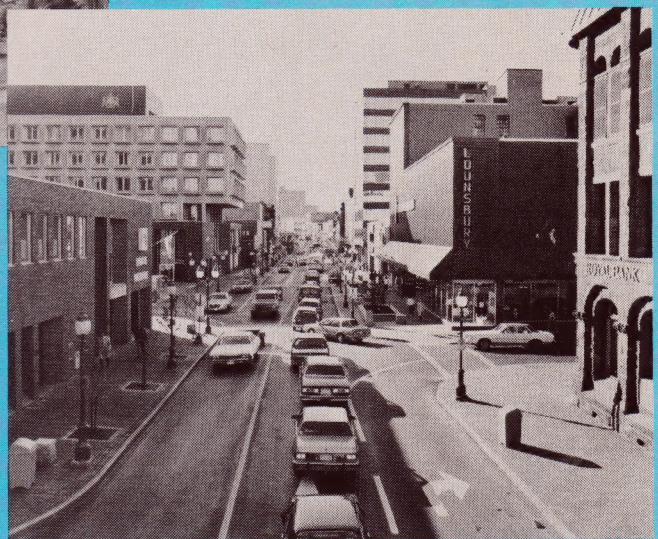


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THE ATLANTIC ECONOMY IN 1984:

Mostly good

A broad assessment of economic performance in Atlantic Canada in 1984 is positive. This applies particularly to the three Maritime Provinces, although Newfoundland has suffered rather gravely from continuing disarray in its fisheries sector.

As is typical of the mid-1980s, however, there are qualifications. Unemployment remains high throughout the region, and business investment is still far below desirable levels. There is concern over the extent of public debt, and about a perceived failure to reduce this debt substantially. Outlooks for 1985 and 1986 show a remarkable degree of diversity and disagreement.

Most preliminary estimates of the region's economies in 1984, however, admit that three of the four provinces will have expanded (in real terms) at, or better than, the national average rate. As already mentioned, the exception is Newfoundland and, even in this province, important sectors such as iron ore mining and newsprint production have done better in 1984 than in either 1982 or 1983.

Eyes remain on U.S. performance

The dependence of the Atlantic economy on performance in the United States needs little introduction. Demand by American consumers and businesses dictates the fortunes of fish plants in Newfoundland, tire factories in Nova Scotia and paper mills in New Brunswick.

American expansion which began in late 1983 picked up speed in 1984. The effect of this rather unexpected burst south of the border was to increase demand for credit, both to finance consumer spending and business investment. Given a monetary policy which still severely restricts growth in money supply, the only course left was to allow interest rates to rise.

And rise they did, from December,

1983, to July, 1984. Canadian rates rose in line, but high U.S. rates, plus a great deal more confidence in U.S. prospects, meant that higher Canadian rates did not stop a flight of capital to the United States.

Depreciation of the Canadian dollar stimulated sales of Atlantic products in American markets. This has substantially driven the Atlantic economy forward in 1984. Other currencies, however, went down much further than the Canadian dollar, which has meant greater competition for Canadian goods.

Indicators track performance

Domestic indicators reveal how well the provinces have done. Retail sales have been up substantially in the three Maritime Provinces, although the increase in Newfoundland has been more modest. Sales have been helped by the fact that inflation no longer takes the bite out of income that it did a year or two ago. By September, it was down to a range of 3.5 to four per cent in all major regional centres.

The Atlantic economy has also established a solid record for job creation in 1984, particularly Nova Scotia. Unfortunately, more people have entered (or re-entered) the job market than there were new jobs, so unemployment has increased. There is no doubt, however, that more people working contributed to a nine per cent increase in regional total wages and salaries over the first half of 1984.

Housing starts didn't do so well over the first half, but this was compared to an exceptional first half in 1983 when there was an array of government incentives. As interest rates have begun to go down since July, housing starts improved over the first half of the year.

Some provincial details

Of Newfoundland's three major export-oriented sectors, iron ore mining and forest products have done well in 1984, but the fishery has floundered, and

this last is largely responsible for a disappointing performance province-wide. There is a little more optimism for 1985, though, which will see an agreement to manage offshore development signed between federal and provincial governments. Real growth in 1984 will be in the two to 2.5 per cent range.

Prince Edward Island's potato farmers and lobster fishermen had excellent returns in 1983, and as a result the province entered 1984 at a gallop. This impetus has been substantially maintained by a good season for tourist visitation.

The relatively stable core of the Island economy is provided by services. This core has been strengthened in 1984 by the presence of the department of veterans affairs' office in Charlottetown. The Island economy will grow by three to four per cent in 1984, and there is enough of a head of steam to carry it into 1985.

Nova Scotia has continued to outperform almost all other parts of Canada in 1984, and this record will probably extend into the first part of 1985. Offshore exploration spending cannot be ignored as part of this good record, but the role this plays in 1985 and beyond may change as part of changes in energy policy. The anticipation of offshore development has certainly stimulated commercial building in Halifax. But the capital's healthy growth is also due to its role as the major regional urban centre. Growth in Nova Scotia will be between 3.5 and 4.5 per cent for all of 1984.

New Brunswick has rebounded rather handily from a slowish 1983, and its major resource-based industries have set the pace. Basically, this comes down to good records by forestry products and food processing, and better times for a newly diversified mining industry. This performance in New Brunswick in 1984 surprised many analysts who underestimated the province's resilience. Growth in 1984 will correspond closely to the national average, at three to four per cent in real terms.

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Note

The information on which this supplement is based was assembled during October, 1984, to meet a deadline at the beginning of November. It contains the most recent statistical data available. The nature of the economic beast, however, means that such data may age very rapidly. Please bear this in mind as you read the supplement.

The Atlantic Provinces Economic Council is an independent, non-profit, non-partisan research institute which has given commentary on, and analysis of, the Atlantic economy since 1953. This supplement represents the latest in a series of annual reviews of conditions in the Atlantic region.

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The minister of finance speaks

The Hon. Michael Wilson, minister of finance, gave an economic and financial statement to the House of Commons on Nov. 8. He proposed reducing expenditures in 1985/86 by \$4.2 billion. These cuts affect all government departments and set the stage for more in the federal budget in the spring.

The government's main concern in its first weeks was to stop the deficit from growing out of control. Even if its restraint program is successful, federal deficits in the \$34-38 billion range are predicted for the next few years. Servicing his debt in 1985/86, even with lower interest rates, will account for one out of every four dollars of federal revenue.

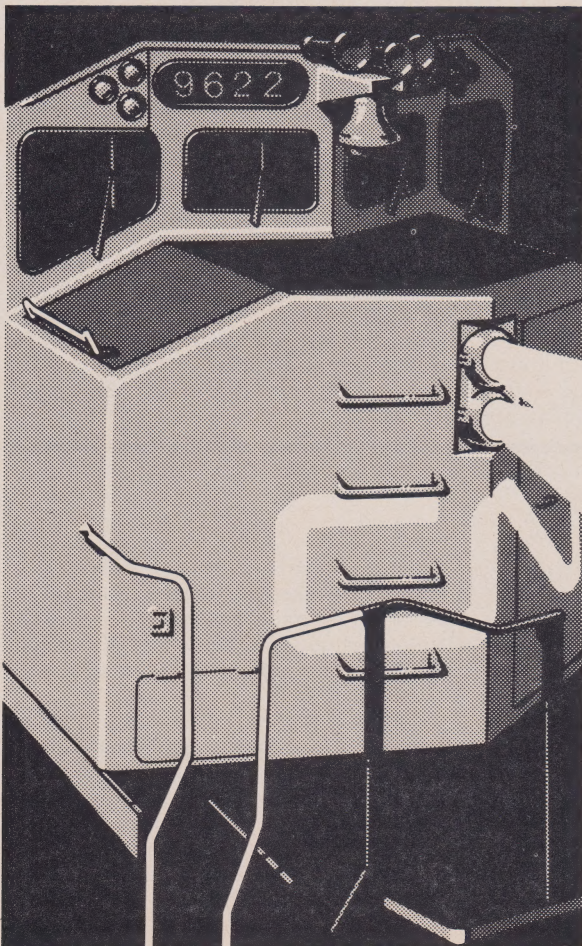
Regional implications

The statement emphasized the government is striving for fairness in dealing with all Canadians. Measures with important effects in Atlantic Canada include:

- A \$250-million reduction in payments under the Petroleum Incentives Program. This program is designed to assist firms undertake frontier exploration for oil and gas, with higher incentives as the percentage of Canadian ownership increases. PIP funds are largely credited with being a principal reason that Nova Scotia survived the 1981/82 recession in better shape than most other parts of Canada.
- Industrial incentives under the department of regional industrial expansion will be reduced by \$200 million. This will affect the level of payments under the Industrial and Regional Development Program (IRDP), one of the major vehicles to deliver assistance to firms across Canada. At first glance, Atlantic Canada has survived IRDP adjustments reasonably well because the heaviest burden of the reductions will be carried by more prosperous parts of the country. Also, applications for grants of up to \$100,000 (which include most from Atlantic Canada) will automatically be approved at the maximum level if basic criteria are met. Assistance levels, however, have been reduced by one-half and two-thirds across the board.
- There are various adjustments to the

subsidies which enable CN Marine to operate ferries in Atlantic Canada. These will involve higher fares, more efficient management and reduced service. Higher fares will affect costs of residents and businesses in Prince Edward Island and Newfoundland and Labrador. One of the proposed service cuts is to make the Yarmouth-Bar Harbor run a summer-only service. This would significantly add to costs and time of trucking fish to the Boston market from western Nova Scotia, and this issue has become a focus of controversy in the region. Nova Scotia fish exports to American markets in 1983 were valued at \$316 million, of which \$245 million were to the New England market.

- An increase in the petroleum compensation charge has already increased the price of gasoline and heating oil across Canada by 2.1¢ per litre. The price of Canadian domestic oil will be allowed to move freely towards the higher world oil price. Both measures will affect Atlantic Canada more than other parts of Canada. The region still depends on oil for much of its electrical generation and pays the highest prices for electricity and oil products anywhere in the country. ■



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The Atlantic economy has done very well in creating jobs in 1984. There was a net increase in employment of 24,000 in September, 1984, compared to a year earlier. Of those jobs, 19,000 were in Nova Scotia.

Job creation, however, only measures the demand side of the labor market. The supply side is measured by the number of people in the labor force either working or looking for work. In fact, the number of people participating in the labor force has increased more rapidly than the number of jobs available. The unhappy net result of this is that unemployment in Atlantic Canada increased quite steeply between September, 1983, and September, 1984, from 14.6 per cent to 16.5 per cent. This increase represents an extra 25,000 people without jobs over the 12 months.

A 21-month assessment

In fact, an unemployment rate over 16 per cent in the region does not typify the period since the beginning of 1983. The chart indicates that over these 21 months the lowest unemployment rate (14.5 per cent) and the highest (16.5 per cent) occurred within three months of each other (July and September, 1984). Except for the steep rise in unemployment in the third quarter of 1984, there had been a tendency over the previous six quarters for unemployment to edge downwards.

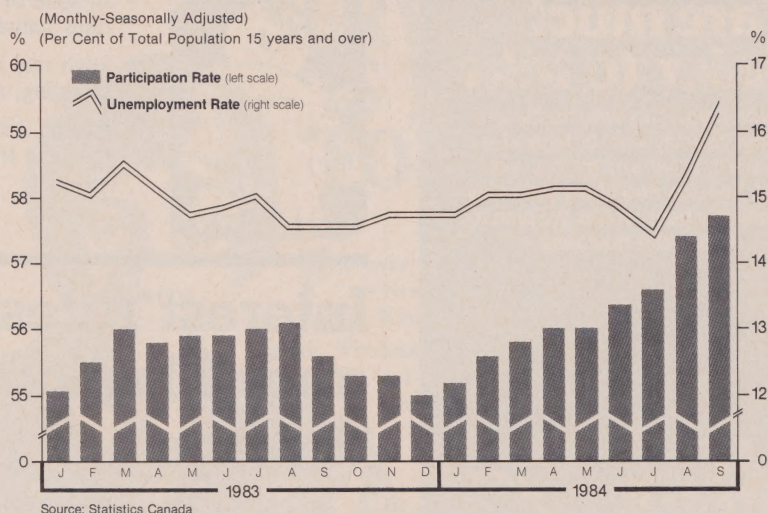
In 1984, especially, the Atlantic economy had performed sufficiently well that job creation absorbed an increasing number of people joining the labor force. About August, however, entry to the labor force surged ahead and effectively outstripped the ability of the economy to produce jobs.

Some provincial details

Newfoundland still holds the unenviable reputation of having Canada's highest rate of unemployment. In September, 1984, this increased steeply over the previous month, to almost 23 per cent of the labor force. This compares with a national average of 11.8 per cent. A substantial part of the big jump in Newfoundland has been due to the effects of a trawlermen's strike. Although only 800 people are officially on strike, almost 4,000 associated plant workers have also been laid off.

Prince Edward Island's record of employment has been about the best of

ATLANTIC PROVINCES LABOUR FORCE PARTICIPATION RATES



all the Atlantic Provinces in 1984. The province's good year for farmers and fishermen has stimulated job creation, as has a better tourist season. The new federal offices in Charlottetown have been hiring, and residential construction has been doing better than in most provinces.

Nova Scotia's employment creation record has already been noted — some 19,000 new jobs in 12 months. This appears to have stimulated more people on balance to move to Nova Scotia than have left. This reverses a trend which typified most of the last two or three decades, when Nova Scotians joined many thousands of other Atlantic Canadians in going down the road.

There may be doubts, however, if positive net migration to Nova Scotia is necessarily always a good thing. It is a fact that the province is widely regarded as having more of a future than in the past, and has performed well during the 1980s. It is also a fact that many other parts of Canada, which provided jobs for Atlantic expatriates when things weren't so good at home, have experienced severe economic recession. Many exiled Nova Scotians, therefore, may be travelling eastwards as a last resort, having lost jobs in places like Alberta. If this is true, then the province is effectively importing unemployment. Numbers of unemployed have increased quite steadily in the province since May, 1984, although some of this is due to increased levels of participation in the labor force.

New Brunswick's unemployment rate in September, 1984, was almost 16 per cent of the labor force, amounting to 47,000 people. Oddly, though, this is probably due less to difficulties in the resource-based industries such as forestry, fishing, mining, and agriculture, but more to temporary difficulties in heavy manufacturing and construction in places

like Saint John and Moncton. This will probably improve over the next few months, especially as the big frigate-building program begins in Saint John.

Structural problems

The Atlantic labor force still faces profound structural problems. They include unacceptably high levels of unemployment among younger people, roughly those under 25 years old. Indeed, much of the higher participation in the labor force can be traced to increased numbers of young people looking for work. If permanent work is not available, this denies these young people those most important first steps to accumulating experience and skills. Youth unemployment remains one of Canada's most pressing social and economic problems.

In Atlantic Canada, as well, participation rates remain below the national average. This is an indication of fewer job opportunities, or of an economy's inability to create jobs. A participation rate of 60 per cent, for example, means that only six in 10 people aged 15 or over are active in the labor market. Atlantic Canada's participation rate in September, 1984, was down to 57.7 per cent compared to a national average of 65 per cent. Whilst allowing for the many people of eligible age who cannot easily join the labor force (the elderly, parents with young children at home, or the disabled), the Atlantic economy is still not creating jobs up to the level of the national average.

High unemployment rates and low participation rates in Atlantic Canada, therefore, are effectively measures of regional disparity relative to other parts of the country. As such, they are symptoms of the overall difficulties facing the region. Economic policies must be designed to attack these disparities, and bring the Atlantic region up to a par with Canada as a whole. ■

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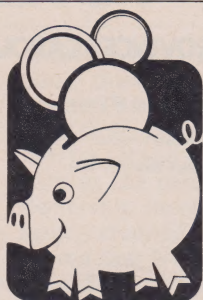
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INFLATION:



- In spite of lower market rates of interest, *real* interest rates remain unacceptably high.
- High real interest rates affect consumer and business spending, and the ability of governments to reduce debt.
- All the Atlantic Provinces still face stiff challenges in reducing their budgetary deficits.

Interest rates and inflation diverge

By the fall of 1984, Canada's annualized rate of increase in prices (as measured by the Consumer Price Index) was running about 3.8 per cent. This is a vast improvement over a rate of about 10 per cent two years earlier, and it is even better than the relatively low rate of five per cent in September, 1983.

With inflation at much more manageable levels, attention turned to the equally pressing concern of lowering interest rates. The record in this respect during 1984 has been, for the most part, not so good.

Real interest rates still very high

The actual cost of a loan and the measure of a "good" rate of interest is a concept called the *real* rate of interest. This is a published rate (say the bank rate, prime rate, or any commercial rate) adjusted for inflation. A published rate of 10 per cent, for example, with an accompanying rate of inflation of six per cent gives a real rate of interest of four per cent. This is the published rate adjusted for changes in the value of the dollar over time, and measures the cost of a given loan more accurately.

During 1984, inflation drifted upwards over the winter months (largely due to higher prices for food and such items as fuel oil) before resuming the downward trend established in 1982. The bank rate, however, began to climb in early 1984, and in fact exceeded 13 per cent in July before coming back down. Credit costs and mortgage rates responded accordingly.

The effects of a high or increasing level of interest rates, with a stable or decreasing rate of inflation, is an increase in real interest rates (the shaded portion in the diagram). Indeed, by mid-1984 real interest rates had increased to a level

of more than nine per cent. This was only exceeded in recent times by a level of about 10 per cent in mid-1981, when prime rates were almost 23 per cent.

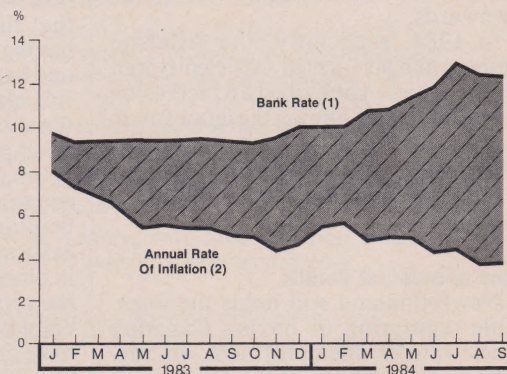
Causes and effects of high interest rates

Thus, although the bank rate appears much more reasonable in late 1984 than in mid-1981, the *effective* (or real) rate of interest (or the cost of money) is almost as high. This has several root causes, and several effects.

Primary causes are generally attributed to high demand for credit as the North American economies recovered vigorously during 1983 and into 1984. This demand originated both from businesses who finally undertook delayed investment programs, and from consumers who felt more confident in making major purchasing decisions to buy durable and semi-durable items such as motor cars or appliances.

A further root cause (and one which is much more menacing over the medium term) lies in government deficits in North

COMPARISON OF THE BANK RATE TO THE ANNUAL RATE OF INFLATION FOR CANADA



Source: Statistics Canada.
Note: 1 The Prime Rate charged by the Bank of Canada to Chartered Banks at end of month.
2 The monthly annual percentage change for the Consumer Price Index.

America. In Canada in 1984/85, the federal deficit will exceed \$32 billion, and most provinces are running budgetary deficits. The American federal government and most of the states are in similar straits. Rapidly increasing deficits for the past number of years have resulted in disturbingly high accumulations of public debt.

This worries analysts, who perceive the continuing demand for credit by govern-

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ments (to service debt, and to assure delivery of government programs) as denying consumers and businesses the opportunity and access to capital at reasonable rates. As excess demand for credit has resulted in higher interest rates (coupled to monetary policies to restrict the supply of money in North America) so the resulting high interest rates will affect the ability of businesses and consumers to spend money and therefore generate economic growth.

Regional ramifications

Atlantic economies are not exempt from the larger effects of high real interest rates; indeed, they are particularly caught up in these side effects. All four provincial governments are running substantial budgetary deficits, and the region (perhaps more than most other areas of Canada) relies on a healthy pace of retail sales to generate jobs and incomes. These retail sales suffer when interest rates increase.

Provincial debt has become a worrisome issue, particularly as interest rates have run so high in the early 1980s. Accumulated debt between 1978/79 and 1984/85 has been estimated at \$1.1 billion in Newfoundland (\$1,982 per person), \$93 million in Prince Edward Island (\$749 per person), \$1.7 billion in Nova Scotia (\$1,991 per person), and \$1.2 billion in New Brunswick (\$1,742 per person).

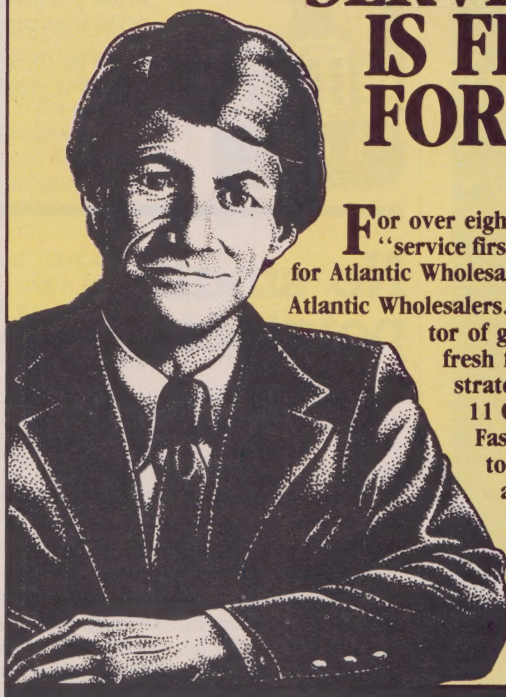
While allowing that some of this debt is necessary and, over the longer term, helps build up equity (such as much capital spending on public infrastructure and installations) much is incurred merely to finance current spending. In a region which labors under Canada's highest personal tax load, and highest levels of sales tax, reduction of this debt in times of high real interest rates remains a daunting problem. Lower than average incomes and a sluggish economic performance over much of the region reduces revenue-raising capacity and compounds this problem.

Watch the U.S. deficit

The direction and magnitude of change in interest rates in 1984 have stirred up more than the usual share of disagreement among forecasters. Well into the final quarter, rates were declining quite significantly, but few analysts regard this as more than a short-term phenomenon. The longer term forecast (into 1985 and 1986) sees an increase in interest rates.

Whether this increase actually occurs depends on American resolve on two fronts — to reduce the federal deficit, and to allow a sustained pace of economic growth at moderate (some would say lacklustre) rates. Success or failure in this respect naturally affects fortunes in Atlantic Canada, as the provinces themselves face the unpleasant task of reducing their own deficits. Certainly, there is no excuse for lack of resolve in Canada to reduce public debt at both federal and provincial levels. ■

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AGRICULTURE:



- Potato farmers had their best year ever as the 1983 crop moved to market, and the 1984 crop is shaping up to be quite reasonable.
- Meat producers are laboring under the twin pressures of low prices and high costs.
- Time to tackle problems of soil degradation in the region is running out.

No small potatoes

Payments to Atlantic farmers for their produce covering the first eight months of 1984 amounted to \$468 million. This compares favorably with 1983's \$400 million, and all four provinces recorded increases.

Much of the benefit of increased receipts has gone to potato farmers in New Brunswick and Prince Edward Island. This is the result of high prices for the 1983 crop as it moved to market over the first few months of 1984. Bad harvests elsewhere in North America and in Europe, and a good, high-quality Maritime crop meant premium returns to the region's growers.

Indeed, 1984 began on an upbeat. The threat of import duties on Canadian potatoes entering American markets was finally dismissed at the end of 1983.

Potato receipts in 1984 have claimed 36 per cent of total receipts for Prince Edward Island and New Brunswick compared to 27 per cent in 1983.

The outlook for the 1984/85 crop and sales is also for quite a reasonable year, perhaps better in Prince Edward Island than New Brunswick. One consequence of strong demand for the 1983 harvest was to allow processors to run down inventories of such items as frozen french fries. Although the North American harvest will be much better in 1984, increased demand from processors will probably keep prices quite strong.

Other crops have mixed fortunes

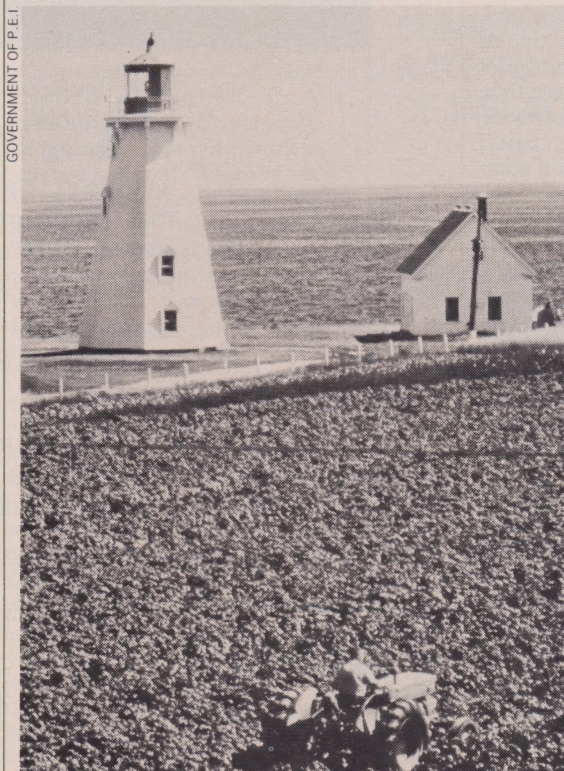
Atlantic crop growers (aside from potatoes) have recorded a mixed year. The strawberry crop was, in a sense, too good. Production of berries increased, but many were left unharvested. Tobacco growers (mainly an Island crop, but also grown in Nova Scotia and New Brunswick) survived a disastrous start to their growing season due to a late frost, and the harvest

has turned out to be excellent. This is the first year that Island growers have operated under a system of area quotas. This is largely in response to a long-term drift away from the weed which is reducing demand for leaf.

It has turned out to be a shakedown year for blueberries. Large stocks in storage across North America are the result of three excellent years of output. Even when prices slipped in 1983, volume was sufficient to maintain (and increase) returns to growers. The 1984 crop has been much lower than in any of the three previous years, and a strong dollar has increased the price of blueberries in export markets in Europe and Japan.

Livestock producers struggle

There were expectations of livestock prices rising as 1984 progressed. In fact, reality fell far short of expectations. Hog prices hovered around the \$80 per hundredweight mark in



GOVERNMENT OF P.E.I.

summer before retreating, and cattle prices have remained low. Hog stabilization funds (designed to support producer incomes during periods of low prices) are very low throughout the region and will require a fair period of good prices to allow replenishment.

Both beef and pork farmers in the region face rather daunting problems. Meat prices are set in Toronto and Winnipeg (based largely on levels set in Omaha, Nebraska) and costs of production in Central Canada and in the West are lower than in the East. Part of this cost disadvantage has been offset by subsidies on western feed grains shipped to Atlantic farmers. The past eight years or so have seen progressive erosion of this subsidy, with the Atlantic sector becoming less and less competitive in its own backyard.

Atlantic governments and farmers' groups have decried reduction of the level of benefits under the freight subsidy. There was, in fact, partial restoration of the amount of the subsidy in 1984, but its effect has been small. Complete re-examination and restructuring is necessary, it is argued, to allow a degree of equitability for livestock producers.

Dairy farmers have emerged from a period of retrenchment to a state of relative health. This sector is the single most important in Nova Scotia, and is very important in the other three provinces. Receipts increased throughout the region, helped in no small way by increases in prices paid to farmers.

Other issues in Atlantic agriculture

The solid performance posted by the region's farmers in 1984 is, unfortunately, a little lopsided. It rests to a large extent on potato sales and dairy receipts, and points out the vulnerability of other parts of the sector to changes in market conditions. A series of Agri-Food Development Agreements signed by federal and provincial governments in mid-1984 is designed to broaden agriculture's base of operations. These will build on the foundations established in previous development agreements.

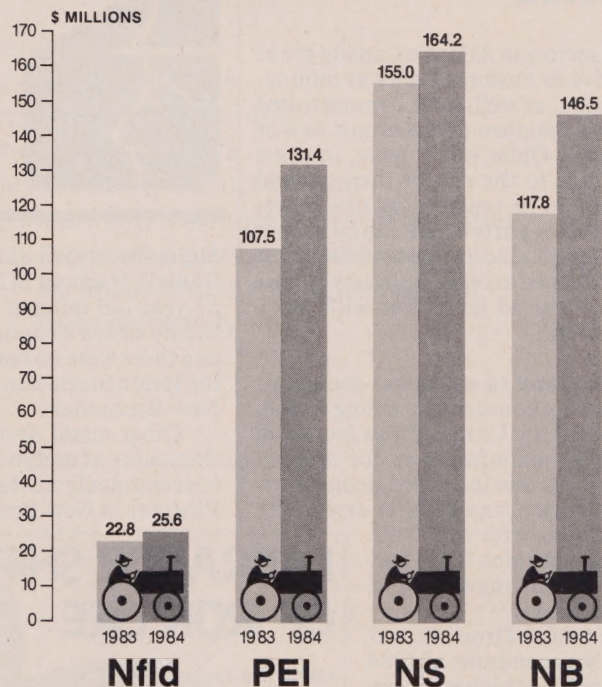
One aspect of farming's base cannot be underestimated — soil. A federal report in mid-1984 once again drew attention to the most serious problem of soil degradation across Canada. Atlantic farmers are not immune to this process, especially in prime crop-growing areas. Corrective action is expensive, takes time, and is urgent and essential. Although such spending may be difficult to justify during times of economic restraint, the soil itself is virtually irreplaceable.

In summary, 1985 brings different degrees of apprehension in Atlantic agriculture. Potato growers hope to repeat a good portion of 1984's success. Livestock farmers are less sanguine as they wait for prices to strengthen. Dairy farms look for some respite from the difficulties of 1982 and 1983.

The region's farmers have rapidly become a force in the Atlantic economy, as the growing importance of associated food-processing factories demonstrates. They still operate under relative competitive disadvantages with regard to other producers in Canada, however. It is testament to their fortitude that the industry has not only survived the difficult times of the early 1980s, but has managed a creditable degree of expansion. ■

FARM CASH RECEIPTS ATLANTIC CANADA

(January to August—Thousands of Dollars)



Source: Statistics Canada

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Showing its mettle

Few sectors in Atlantic Canada are as responsive to business cycles as mining. Few sectors, as well, have demonstrated as much dynamism over the past two or three years. Older mines have, in some cases, come to the end of their natural lives, only to be replaced by new enterprises in other parts of the region. Other established producers survived the recession and cashed in on the recovery, sometimes at reduced levels but with more assured step.

Metals respond to consumer spending

A burst of consumer spending in both Canada and the United States increased demand by manufacturers for mineral products. As this increased demand affects Atlantic Canada, this essentially translates to iron ore from Labrador, and zinc from northern New Brunswick and other locations.

Shipments of iron ore over the first seven months of 1984 were 38 per cent higher than in the same period of 1983. As North America's auto producers and manufacturers of other consumer durables responded to greater consumer spending, so this demand echoed back to Labrador. Much of this demand has not necessarily been met by increased output of ore at the mines, however. Large stockpiles had accumulated. These were much lower at the end of July, 1984, than a year earlier (by about 40 per cent).

Before the recession of 1981/82, the Iron Ore Company of Canada had a labor force of 8,000. In mid-1984 this was down to 2,600. Closure of the Schefferville operation in Quebec accounts for a substantial part of this reduction, but there is little doubt that output and employment at the mines in Labrador will not reach levels of the late 1970s for many years, if at all.

Zinc has an advantage over other metals in that it hardly ever is recycled as scrap. Much of the metal is used as a galvanizing agent, being combined with other metals. Zinc prices in 1984 did very well, and the region's producers responded. Brunswick Mining and Smelting in northern New Brunswick benefited especially (although not to the extent of resuming work on their proposed North



- Good prices for zinc for the first half of 1984 have been of great benefit to Atlantic producers, and iron ore shipments from Labrador have picked up pace.
- There are new (or renewed) developments in the region for minerals such as fluorspar, potash, antimony, and tin.
- Coal developments have hesitated slightly, but the overall outlook is positive.

Shore smelter) as did the smaller mine at Daniel's Harbour in Newfoundland. The 57-year-old mine at Buchans, however, finally closed its doors as its ores ran out, and there were no real signs of reopening the Heath Steele mines near Newcastle in New Brunswick.

Other metal developments saw first shipments of molybdenum and tungsten concentrates from the new mine at Mount Pleasant in New Brunswick, and a deci-

both for New Brunswick and for Atlantic Canada's mineral sector. One mine is producing, a second is being built, and a third is likely to start building within a year.

Coal developments hesitate

A fire at the Number 26 Colliery in Glace Bay in April, 1984, was both tragic and badly timed. This event alone is responsible for a drop of a quarter or so in Cape Breton coal output over the first eight months of 1984. It also meant that the coalfield's primary source of metallurgical coal had to be closed down and it could take years to develop a new mine. All this occurred just as export orders for metallurgical coal were becoming regular items for the Cape Breton Development Corporation (Devco).

The overall outlook for coal is positive. There is a federal commitment of \$327 million for new mine and related developments in Cape Breton. Devco has a new contract at an improved price to supply the Nova Scotia Power Corporation with thermal coal. In addition, the Chatham generating station in New Brunswick appears to have become the test bed for experiments to examine coal being burnt in different guises. These include Carbogel (a coal-water slurry) and a new addition to test an experimental boiler which burns high-sulphur New Brunswick coal and oil shale.

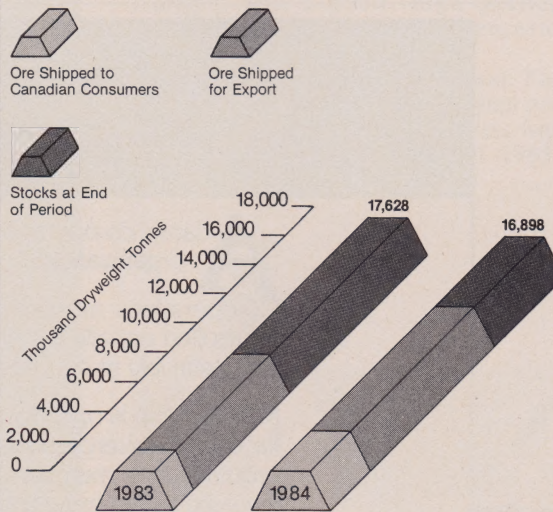
New developments

Nova Scotia is set to re-enter the metal-mining stakes with development of an open-cast tin mine in Yarmouth County. It will be the only mine with tin ores as its principal product in North America, and present indications are for 17 years' production at least.

The overall outlook for metals especially depends on interest rates. The level of interest rates especially affects consumer spending decisions on durables and semi-durables, each of which require substantial mineral inputs in their manufacture. Although all mineral production has varied widely over the past three years or so, 1984 and 1985 bring a degree of stability not experienced since 1979 or 1980. New and more diversified production adds to this stability.

LABRADOR SHIPMENTS OF IRON ORE

(January to July)



Source: Energy, Mines and Resources.

sion to develop a new ore body at the nearby Lake George antimony mine.

Non-metals increase in importance

The region's traditional base of non-metallic mineral production has included structural materials (including gypsum), coal, asbestos, and salt. The past year has seen the addition of potash extraction, and the coming year will see the revival of fluorspar mining in Newfoundland and more potash developments in New Brunswick.

This last is perhaps one of the most positive developments of recent years

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TOURISM:

Tall Ships, the Pope, and Royalty

The 1984 tourist season in Atlantic Canada has generally been upbeat. A series of high-profile events have increased visitation, and the region's traditional standbys of scenery, sandy beaches, and friendly people were supplemented by a sustained period of beautiful weather in July, August, and September.

Events draw crowds

Anchoring the early part of the season in mid-June was the visit of some of the world's finest sailing ships to Halifax. Many of these same ships spent time in Sydney in July, and for several days in both cities the waterfronts were crowded with people. Events such as this appear especially useful in stimulating travel on the part of people who live within the region, and certainly hoteliers, restaurant owners, gas-station owners, and many others in the two centres benefited from an invasion of people.

Other events later in the year caused



- 1984 has seen improved visitation compared to the previous two years, but it is still below the peaks of 1979/80 with spending also declining.
- A series of special events in some of the region's bigger centres during the year probably generated more than the usual travel within the region, but benefits from this were largely confined to the host localities.
- The challenge to the region's tourist industry is formidable in the face of high prices and intense competition from other destinations. Change and new developments, however, are occurring and hold promise that the industry is adapting to new circumstances.

somewhat similar movements of travelers within the region. The Pope spent time in St. John's, Halifax and Moncton, and the Queen and Prince Philip visited several centres in New Brunswick to mark that province's bicentennial celebrations.

Other visitation also increases

As important and spectacular as these events were, they cannot replace the traditional and established drawing cards which entice visitors to the region. In this respect, a timely plunge of the Canadian dollar relative to its American counterpart gave a lift to the expectations of tourist operators. American visitation to Atlantic Canada has been drifting downwards in re-

cent years. A high U.S. dollar, in addition, would deter Ontario and Quebec residents from travelling south of the border and direct them, instead, eastwards.

Visitation to the three Maritime Provinces, in any event, was much better than in 1982 or 1983, and this has allowed the industry a little time to breathe and to assess new challenges for tourism during the balance of the century.

Newfoundland generates most of its tourist travel (about two-thirds) internally. In this respect, 1984 may have seen a reflection of a sluggish provincial economy, which would persuade even more Newfoundlanders to stay close to home. Air visitation to this province,

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however, has been increasing. This is quite closely tied to energy-related business visitation to St. John's. Generally, however, out-of-province visitation was down rather significantly.

Some difficulties still nag

Although the 1984 tourist season has generally been a good improvement over the previous two years, there is little doubt that visitation in the mid-1980s is substantially below that of the late 1970s. If direct tourist spending is adjusted for inflation, this is also declining.

For example, a little over 216,000 tourist parties were recorded as visiting Prince Edward Island in 1980, the most ever. They spent an estimated \$49.5 million in terms of 1981 values. By 1983, only 198,000 parties were recorded with estimated direct spending (in 1981 dollars) of only \$40 million. Although preliminary estimates indicate more than 200,000 parties visited the island in 1984, this is still far short of the 1980 peak.

Even allowing for the unavoidable inaccuracies of tourism statistics, broad trends are still apparent — fewer people are visiting the region, and they are spending less.

Atlantic tourism has traditionally aimed at attracting family visitation from within the region, from Central Canada, and from the northeastern United States. This confines effective markets to within two days' drive of the destination, and with gasoline prices increasing, and economic circumstances generally uncertain, families appear less willing to venture far from home. Incoming travel by other modes of transportation (such as air or rail) may have increased, but cannot offset the overall decline in auto visitation.

There is also the fact that Atlantic Canada's prices are high, especially for such items as gasoline and alcoholic beverages. These high prices, for example, are more than enough to offset a low dollar usually used to attract more American visitors.

In this respect, too, intense competition for the tourist dollar has been a factor. Although the Canadian dollar was, and is, low relative to the American dollar in 1984, it was not nearly as low as most European currencies. Given the ease of transatlantic travel these days, the Atlantic Provinces' attractions were in direct and intense competition with the undeniably formidable attractions of such places as Paris, Pisa, Scandinavia or Scotland.

New developments hold promise

The region's tourist operators are not lying down in the face of new challenges, however. The range of tourist attractions is wider and more diverse than ever before. Three of the region's cities have specially-built convention facilities, and more are planned. Specialized resorts are

springing up in various locations.

Marketing efforts have intensified, and there is a particularly healthy movement in this respect towards more co-operation between the provinces. Such efforts to "sell" or "package" Atlantic Canada's scenery and other attractions as a whole, rather than as a series of relatively small provinces with a correspondingly reduced array of attractions, are an essential part of the region's tourist future.

Other big challenges remain to be

overcome, such as much better travel access (by ferry or air) to Prince Edward Island, or making sure that benefits for tourist spending are not concentrated in relatively small areas, but are more diffused. Finally, it may be time to think less in terms of a "tourist" industry, and more in terms of a "hospitality" industry. This, in the first place, may emphasize the very wide range of activities encompassed by such an industry and, in the second place, may emphasize the level and quality of service required to assure repeat visits. ■

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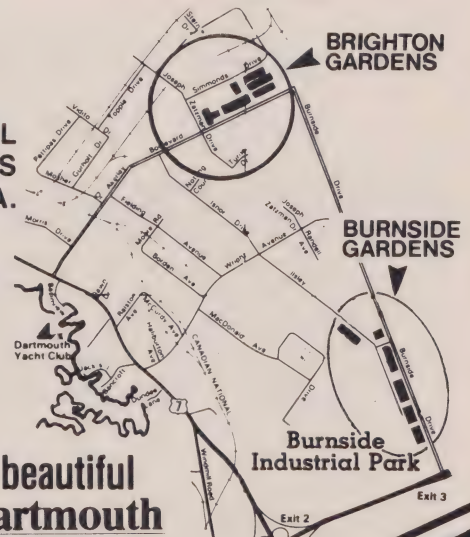
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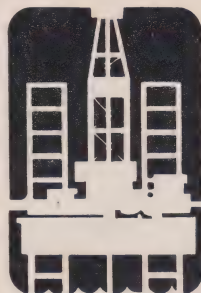
ENERGY:

Electrical generation expands

The addition of New Brunswick's Point Lepreau to Atlantic Canada's electrical generating capacity added a new dimension to the region's energy capability. During its building, public attention was focused on a number of negative aspects of Lepreau, including capital cost overruns, labor problems, and environmental safety.

Lepreau was finally commissioned in mid-1983 and has run at virtually 100 per cent capacity (except for scheduled maintenance shutdowns) since then. Slightly more than one-third of its 630 megawatt capacity is contracted for sales to New England utilities. Consideration of a second reactor at Lepreau (of equal size) is now negotiating the regulatory maze.

New Brunswick, however, hasn't been alone in adding capacity to its system over the past couple of years. Nova Scotia has brought successive phases of its Lingar coal-fired complex into production, and



- Electrical capacity in the region expands with addition of nuclear, coal, and hydro generators.
- High cost of electricity remains an issue in Prince Edward Island.
- Some of the shine leaves offshore activity as no development decisions are taken, but new deposits of oil and gas are still being found.

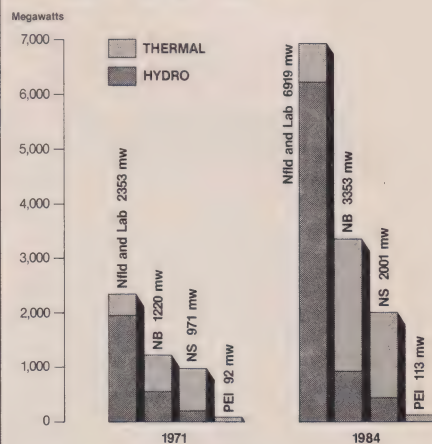
installed capacity is now 600 megawatts. There has also been the official opening of the 18 megawatt pilot tidal plant at Annapolis Royal. Newfoundland has added hydro capacity at Upper Salmon River, and work is well in progress at Cat Arm.

The Island examines its electrical options

Prince Edward Island, meanwhile, still suffers from the highest electricity bills in Canada. The provincial government has been building a case for relief from this burden on two fronts. Firstly, it argues, there should be a National Electrical Energy Marketing Agency to determine and sell electricity at a "blended" national price in much the same way as oil or gas prices are blended at point of production. Such a price for power would

apply only to inter-provincial sales (the Island gets most of its electricity from New Brunswick), and analysis has demonstrated that very modest sacrifices in terms of prices charged by Quebec, Ontario and the Western provinces would provide substantial benefits to electricity users in the Maritimes. Secondly, the Island has asked the National Energy

INSTALLED ELECTRICAL GENERATING CAPACITY — ATLANTIC PROVINCES 1971 AND 1984



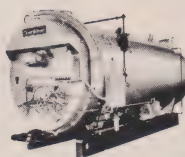
Source: Statistics Canada

Board to examine New Brunswick's pricing policies, especially when it may charge less for certain types of electricity in export markets than in the Prince Edward Island market.

Labrador hydro unresolved

Newfoundland and Labrador have a problem of a different nature. There is abundant hydro potential within relatively easy access of major markets, yet the provincial economy and treasury are not able to benefit. This, of course, stems from the contractual arrangements to sell almost all of Churchill Falls' output to Hydro Quebec, under an agreement signed in 1969. Without this agreement, it is doubtful whether the Churchill Falls project would have begun.

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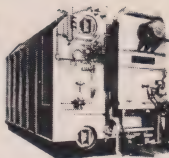


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The energy world of the mid-1980s, however, is vastly different from that of the late 1960s. Newfoundland has repeatedly claimed that Quebec has benefited from Labrador's hydro resources by reaping large windfall profits by reselling electricity at vastly higher prices than it pays for it.

The Supreme Court of Canada had its chance to rule on the equitability of this arrangement during 1984. Its decision basically came down to the fact that a contract is a contract, and can only be changed by mutual negotiation and consent between the signatories. There are at least two consequences of the impasse which persist. Firstly, there is little incentive to begin development of other sites in Labrador. Secondly, the Island of Newfoundland, denied access to relatively in-

expensive Labrador power, faces the unpleasant prospect of building more oil-fired thermal capacity to meet its long-run demand for power. Given the lead time necessary to bring an electricity generating plant into production, decisions must be taken quite soon.

Offshore activity marks time

The image of offshore potential has become slightly tarnished with the passage of time. This is not to say the potential is not there. Indeed, during 1984 there has been news of more substantial oil reserves off Newfoundland, and of gas reserves off Nova Scotia.

There has been little perceived progress, however, towards making the promise a reality to the benefit of Atlantic Canada. As 1985 starts, there will also be new rules to govern offshore exploration and development. One of these has been known for some time — world oil prices have shown no tendency to strengthen, but rather have continued to go down. What was originally regarded by many as a short-run dip in prices is, indeed, becoming the norm which will govern energy economics for the balance

of the 1980s.

Other changes are bound to follow a change of government in Ottawa. In the first place, there will be a resource-management agreement within a few months to manage development of reserves off Newfoundland. And in the second place, there will be changes to the National Energy Program (NEP) which will probably affect exploration incentives. Petroleum Incentives Payments have covered up to 80 per cent of the total cost of offshore exploration for the past few years, for a total cost exceeding \$1 billion to the end of 1983 off the East Coast. These payments are credited with giving a degree of stability to the Nova Scotia economy especially during uncertain economic times. Changes to the NEP may see some of the attention move back towards the west of Canada.

The East still has a future stake in oil and gas developments, however. There appears to be a willing market for Venture natural gas in New England, and no one can deny the size of the Hibernia oil pool. There are still difficulties in dealing with seasonal ice off Newfoundland, but researchers are also tackling this, and other, environmental problems. Development will come; when it will come is less certain than ever. ■

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Both retail and export

Both retail and export trade are important engines behind economic performance in Atlantic Canada. The former is a strong reflection of domestic consumer demand and spending in the region, the latter an indication of foreign demand for Atlantic Canadian products.

Patterns in consumer spending

Consumer spending in Atlantic Canada has been a prime component of regional recovery since early 1983. This has been due to improved levels of employment, better incomes and more confidence in the immediate future which has prompted people to make those purchases which they perhaps denied themselves during the recession.

Lower interest rates have also made financing major purchases (cars, appliances and so on) less expensive, and have made the alternative of saving less attractive. Reduced inflation has given a degree of price stability unknown for a decade.

Retail sales around Atlantic Canada increased by 12 per cent over the first eight



- Retail trade has been a major component of a good performance by many parts of the region in 1983 and 1984.
- Export sales have also done very well, capitalizing on American recovery and a low Canadian dollar.
- The rules of the export game are constantly changing as protectionism and exchange rate variations have their effects.

months of 1984, when compared to the same period in 1983. This is faster than the rate of inflation (3.7 per cent) or than the national average increase in sales (10.7 per cent), and amounted to a total value of sales of \$61 billion.

Sales have been particularly brisk in Prince Edward Island (a reflection of an excellent potato harvest in the 1983/84 crop year and good lobster landings in 1983) and Nova Scotia. Sales of new motor vehicles have been excellent, demonstrating that consumers have been making durable purchases they postponed in 1982 and 1983.

Sources of finance

Funds to enable consumer spending can come from one or more of several

sources. First is current income, and there were signs that when the current surge in retail sales began in mid-1983, this source provided a relatively small portion of necessary finance. It is likely, however, that a larger share has been financed from current income in 1984.

Second is personal savings, and the evidence indicates that savings were run down in 1983/84 to finance consumer spending, and a greater portion of personal income was diverted from savings accounts to consumer purchases.

Third is personal credit, either by means of bank loans and the like or by shorter-term borrowing such as credit cards. In fact, per capita borrowing from chartered banks in Atlantic Canada increased quite consistently during the latter parts of 1983 and well into 1984.

Short- and long-term trends

Short-term trends in consumer spending are very sensitive to interest rate changes, whether real or anticipated. There was, in fact, a slowing down in the rate of spending in the middle months of 1984. This may speed up again over the Christmas period, but may then begin to moderate again as consumers, often hurt badly during the recession, save more and spend less.

Longer-term trends in consumer spending will largely reflect demographic changes. For example, population growth has slowed down, and the population is getting older on average. As the population ages, the rate of household formation also declines, and along with this the necessity to fill new households with consumer goods also goes down. This process is enhanced as older people progressively turn their attention and incomes towards providing for their retirement rather than current consumption.

To offset these demographic processes, however, is the type of surge in spending usually induced by such new goods as video-cassette recorders or satellite TV dishes. As long as incomes and perceived necessity of such items allow, retail sales will continue to be an important factor in the Atlantic economy.

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exported. As many of these products are resources or resource-based manufactures, this largely explains the region's vulnerability to ups and downs in the international business cycle.

The value of merchandise exports from the Atlantic region for the first seven months of 1984 was almost \$3 billion. This compares to a sum of \$2.2 billion for the same period in 1983, and illustrates well how a stronger than anticipated recovery in the American economy in 1984 has greatly stimulated demand for Atlantic production.

The largest single contribution to exports was \$1.4 billion from New Brunswick, spurred on largely by a sterling performance by forest products. Indeed, forest products (mainly pulp and paper) in Newfoundland and Nova Scotia have also done very well. Food product exports (based on both agricultural and fish processing) have suffered rather badly from difficulties in the fishery sector. Nova Scotia's production and exports of end products, however (manufactured items such as tires, railcars and steel rails), increased by 40 per cent.

Special mention should be made of exports from Prince Edward Island. They were valued at \$81 million between January and July, 1984, four-fifths of

which were food products. This represents an excellent increase over the past few years, as evaporated milk has been shipped overseas from Charlottetown, and as potatoes (both table and seed stock) have found new markets worldwide.

Exporters face difficulties

The impressive increases in export trade from Atlantic Canada over the past few years have been made during a time when a protectionist mood has threatened all world trade. In some respects, indeed, this has directly affected Atlantic products. The European Economic Community (EEC), for example, reduced its import quotas on newsprint from 1.5 million tonnes annually to 375,000 tonnes at the beginning of 1984. (This quota was raised several times during the year.)

Canadian mills were shipping 700,000 tonnes annually to EEC markets, much of this coming from Atlantic mills, particularly those in Newfoundland. Sharp permanent reductions such as these cannot help but worry newsprint producers.

There also have been mumblings of discontent from American fishing interests over the price of Canadian fish in U.S. markets. This is the single most important market for Canadian fish, and

any reductions in export shipments (as demanded by U.S. fishermen) would compound serious difficulties within the Atlantic fishery. Similar threats are once again emerging to affect Canadian lumber sales in U.S. markets.

Both fish and lumber exports to the U.S. and many other Atlantic commodities have, however, benefited substantially from a low Canadian dollar. This has prompted U.S. buyers to build up their stockpiles of things such as newsprint or mineral products while prices are so relatively low.

Unfortunately, the Canadian dollar has remained quite firm against most European currencies. This also means that these European currencies are also weaker than the Canadian dollar in American markets. There are two effects from this. Firstly, Canadian goods are less competitive in European markets. Secondly, European goods (such as Icelandic fish or Scandinavian forest products) are more competitive in U.S. markets.

These, and many other, items complicate the lives of exporters. Their success in recent years indicates they have met such challenges, and this experience will stand them in good stead in the future. ■

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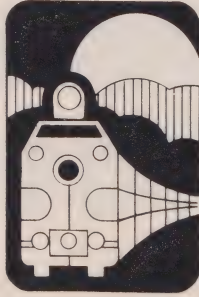
Ports boom, airlines merge, deregulation looms

There are few better "instant" indications of economic health in certain parts of Atlantic Canada than shipping through the region's main ports of Halifax and Saint John. The amount of cargo moved is a short-cut reflection of how Nova Scotia and New Brunswick are doing respectively. Results for both ports over the first three-quarters of 1984 have been most encouraging.

Halifax grows rapidly

Tonnage imported through the Port of Halifax over the first nine months of 1984 was 14 per cent higher than over the same period in 1983. The total tonnage was more than 5 million tonnes, of which 4 million were crude or refined oil products to feed Dartmouth's two refineries, or one of the Nova Scotia Power Corporation's generating stations. Containerized general cargo imports was up by two-thirds to almost 800,000 tonnes.

Cargo exported through Halifax is rather more diversified, and amounted to



- Major ports in Nova Scotia and New Brunswick have done very well in 1984, reflecting solid performances in the region's economy.
- Eastern Provincial Airways merged with CP Air and appears set to begin an aggressive campaign to gain more routes and attract more people to fill its seats.
- Deregulation of transportation is a fact of life in the United States, and appears inevitable in Canada. It will affect travel by air, trucking and the railways.

Port authorities are most optimistic.

Saint John moves New Brunswick's resources

Export tonnage shipped through the Port of Saint John to August, 1984, was 40 per cent higher than the same period in 1983. This one piece of information alone testifies to the recovery and expansion of New Brunswick's resource-based industries. Import cargoes were up by 11 per cent.

Many of the province's most important products are shipped to market through Saint John, including newsprint and other forest products. In 1984, these established commodities were joined by potash from the new mine near Sussex. The port also continues to move containerized cargo from and to other points in Canada.

It would be difficult to underestimate the vital role the ports play in the economy of the Atlantic region. One or two ocean-going vessels call at many Atlantic harbors each year, to load fish, pulpwood, potatoes, mineral products and so on. As the region discovered early prosperity in the advantage of relatively easy access to markets, so this locational advantage may serve again to give more prosperity to the Atlantic economy.

EPA and CP Air

Eastern Provincial Airways was rarely out of the news for long in 1984. Early in the year, it announced movement of its operating base from Gander (Newfoundland) to Halifax. About 500 jobs were involved.

Shortly afterwards, the sale of the airline to CP Air was announced. Subsequent developments have seen EPA preparing actively for the anticipated deregulation of Canadian air traffic. Applications for new routes have been announced, and ticket prices within the Maritimes, and within Newfoundland, have been cut to levels in direct competition (in some cases) with surface transportation.

The prospect of air deregulation inspires mixed feelings within the region. On the one hand, supporters of the move indicate the greatly reduced ticket prices which have resulted for deregulation in the United States. On the other hand,

others point to the increasing concentration of benefits from deregulation on certain high-volume routes. There may also be a price to pay in terms of air service to many smaller centers within Atlantic Canada. Such service may not survive in the very competitive world of deregulated airlines.

Deregulation is in

Not only air traffic is a target for deregulation. The new federal government is also examining deregulation of other modes of transportation. Once again, this follows recent developments south of the border. Major acts governing transport in Canada are scheduled for revision, including the National Transportation Act, the Railway Act, the Aeronautics Act, and the Transport Act. Trucking and rail will be affected, as well as air.

There are also specific transportation issues which affect Atlantic Canada, some of which are all too familiar, others which may well become more familiar quite soon. Discussion over the future of freight subsidies in 1983 dominated transportation circles. These subsidies survived intense scrutiny by federal authorities, and were retained at existing levels. This issue may resurface at some stage as Ottawa examines ways to reduce a federal deficit.

By the same token, subsidies to ferry services in the region have been mentioned as worthy of thorough examination by at least one Ontario-based analytical group. Another group (the Economic Council of Canada) has recommended discontinuing the at-and-east rates (which assist shipment of Prairie grains through East Coast ports) and feed freight assistance payments (which subsidize shipments of western feed grains to Atlantic farmers). On a positive note, Atlantic Canada is likely to regain some of the passenger rail service cut at the end of 1981.

Much of the history of the Canadian Confederation can be couched in terms of transportation issues and crises. The sheer physical size of the country means an efficient transportation system is vital to move goods both internally and to export markets. The changing times of the mid-1980s are unlikely to see any lessening of interest in, and threats to, the structure of the transportation system which assists Atlantic Canada to function smoothly. ■



DAVID NICHOLS

5.5 million tonnes, a 16-per-cent increase from 1983. Gypsum was the single most important commodity shipped (more than 2 million tonnes) followed by refined petroleum products.

Halifax is perhaps better set in 1984 to expand its role as a vital East Coast port than at any time in the past. A new generation of container ships started calling during 1984, bigger and requiring the deep water that the port offers. One of the two container piers is being expanded just two or three years after being opened.

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CUSTOMER: Empire Air Conditioning Ltd. DATE: May 14, 1984
ADDRESS: 1282 Industrial Avenue
Winnipeg, Manitoba
R3C 2B2
TELEPHONE: (204) 722-7000

<u>ORDER NUMBER</u>	<u>ITEM CODE</u>	<u>QUANTITY</u>	<u>UNIT PRICE</u>
467A	28BG030	3	\$230.00
518D	31IN514	2	\$290.00
621A	38VU030	4	\$780.00
TERMS: 2 net 30		ORIGINATED BY: C.E. Lawson	

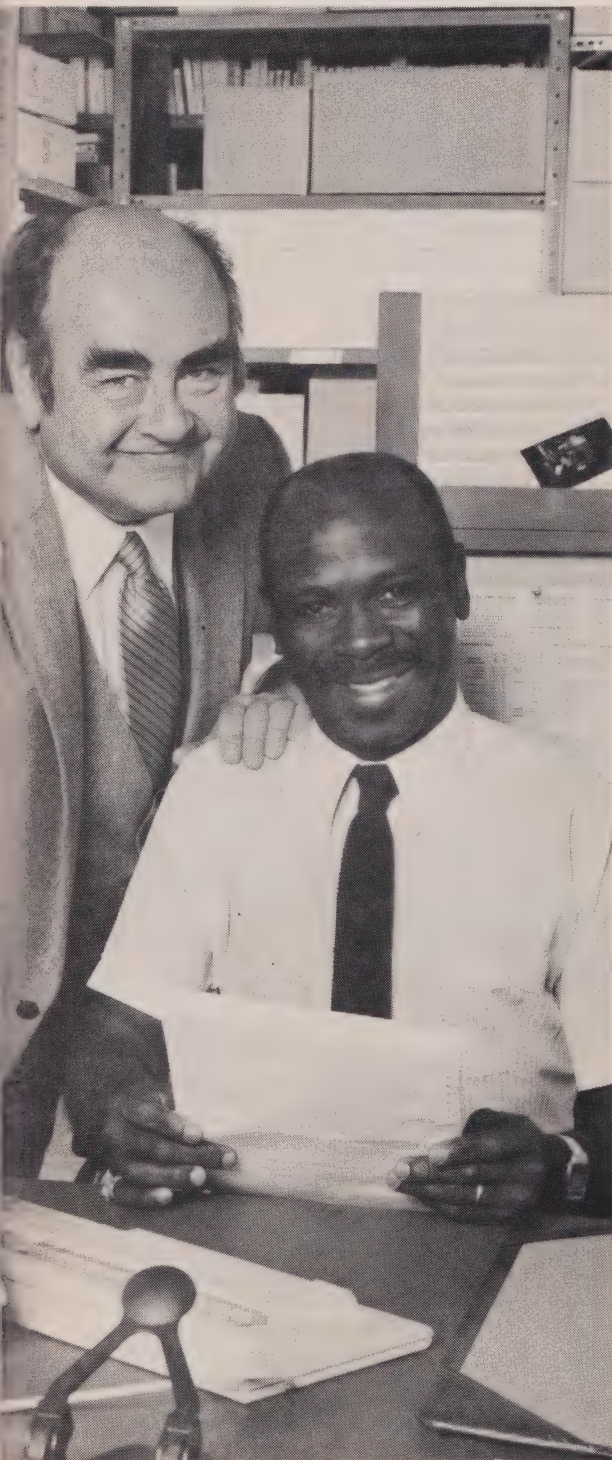
COMMENTS:
Rush order. Increase in customer sales have depleted current stock

Command? Bye 0

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DATAPAC: call cleared - remote request
DATAPAC: 8140 4029



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THE FISHERY:

Restructured but not revitalized

The financial restructuring of Atlantic Canada's large offshore sector was well under way by the fall of 1984. However, the two new companies which now dominate offshore processing (Fisheries Products International in Newfoundland and National Sea Products Ltd. of Nova Scotia) have not yet lived up to the high expectations that many had for them.

A continuing financial crisis reflects the serious implications of a number of interrelated issues, among them: a restructuring in danger of collapse; lower levels of landings; sluggish markets; and other domestic and international problems. These issues affect the two super-companies, small processors and the individual fishermen. It will be a difficult task to improve industry fortunes in 1985, but there is a consensus that things can only get better.

The restructuring

It is becoming clear that early criticism that restructuring was underfunded was correct. Fisheries Products International still had debts in the order of \$100 million even after a substantial injection of government funds. The government-controlled company will likely show losses in the \$25-million range in 1984, and has already given notice that a further cash injection of \$125 million may be needed to assure a degree of profitability.

National Sea Products, still in private hands, will fare better. Operations have been trimmed and the Nova Scotia company was expected to cut losses in 1984. The need for further government funding has not been ruled out, however.

This financial baggage, combined with high and expensive inventories, put companies in a squeeze again in 1984. The financial crisis has not reached 1983 proportions, though, for several reasons.

First, the federal government stepped in with a \$14.5-million inventory assistance program for frozen cod. A \$25-million loan guarantee was provided to Fisheries Products International. These closures helped companies resist pressure to "dump" inventories, and kept prices from falling even further than they did. A strike by Newfoundland trawlermen and a poor inshore fishery in that province in 1984 also served to ease pressure on inventories.

Industry performance 1984

Problems in the fishing industry are usually reflected in the level of landings.



- A year after industry reorganization, the fishery is still in one of its worst periods ever, but is set to do a little better in 1985.
- Landings are generally down, and markets soft in spite of a low Canadian dollar.
- Labor problems have added to the overall confusion within the industry.

In addition, landings in 1984 reflect a mix of environmental, market, and regulatory influences leading to substantial variability in results by province, district, and species.

The groundfishery (cod and others) shows landings below 1983 levels. Although early season landings of northern cod were good, a large proportion of these landings went into block production. With prices flat for this product over the last few years, inventories grew and landings began to reflect this poor demand. Adjustments took the form of permanent closure of the National Sea plant in Halifax and slowdown and temporary closure at other plants in Nova Scotia. Newfoundland, too, reduced its capacity, although a slow early summer and fall

that this fishery has reached its peak in the Gulf. The scallop fishery continued its decline, reflecting depleted stocks of sea scallops on Georges Bank and increased concentration on smaller species such as Icelandic scallops.

Pelagic species fared poorly in 1984. Lower landings of herring reflect severe stock problems. Only the practice of over-side-sales to Soviet ships and sales of herring roe to Japanese buyers have preserved the high prices that make the fishery viable.

Tough markets

American markets, the destination for close to 80 per cent of the region's fish exports, seem to be increasing demand in conjunction with general economic re-



GOVERNMENT OF NEW BRUNSWICK

groundfishery and later a trawlermen's strike account for lower landings after August.

The shellfishery (especially important in New Brunswick and Prince Edward Island) fared somewhat better. The lobster fishery did better in 1984 than in 1983 in Newfoundland and Nova Scotia. New Brunswick and Island lobster catches were also very good, but an excellent year in 1983 makes a direct comparison misleading. The crab fishery was not as fortunate. Lower prices and lower catches were the norm in 1984. With the closure of the late summer Gulf crab season this year to help preserve stocks, it seems likely

covery. This resurgence in demand has been rather specific, however. Preliminary figures show production and exports of fresh fish and frozen fillets well ahead of 1983's pace. Exports of frozen fish blocks (mostly cod) were down, however.

Another problem emerging in markets in 1984 was stiff competition in traditional markets from countries whose currency has been devalued in relation to Canadian and American dollars. Icelandic fish exports have become extremely competitive by this means. Increasing competition is but one of many problems the industry faces at home and abroad.

A host of problems

At home the industry faces a number of serious labor problems. Strikes by trawlermen and scallopers continued in Newfoundland and Nova Scotia in the fall of 1984. Strike action remains a distinct possibility among Newfoundland plant workers who, like the trawlermen of that province, have been without a contract for some years.

Stock problems have seen the landings of scallops on the decline for several years. The transfer of effort to smaller species in other areas has in no way compensated for the depletion of the Georges Bank stocks. Poaching and minimum size infractions have grown in recent years for this and other important shellfish species.

International concerns include the settlement of the Georges Bank boundary dispute. The International Court of Justice granted Canada one-sixth of the bank, about half of the area claimed. The settlement, while it sets the groundwork for stock management talks with the Americans, could have serious short-term consequences for the Nova Scotia-based scallop fleet.

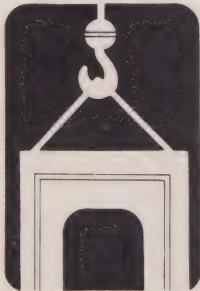
Most disturbing, however, is the potential for countervailing duties as a result of an investigation by the U.S. government's International Trade Commission into Canadian fish imports into the United States. American fishing interests point to low prices which they claim reflect a high level of support from Canadian governments. Canadian interests claim that low prices reflect differences in currency, higher catches per unit effort, and better stock management policies. The government-assisted restructuring has drawn added attention to this series of ITC hearings.

In search of solutions

It has been a year since the restructuring of the offshore processing sector, and almost two years since the release of the Kirby report. The recommendations of the report have been met with severe criticism resulting in slow or incomplete implementation of all but the most "motherhood" of recommendations.

Finding solutions to the industry's problems now falls to a new federal government. This will not be an easy task. The industry's problem has always been a mix of long-term structural problems and short-term emergencies.

A few new ideas have emerged, however. There are proposals for new regional fisheries councils as a basis for new policies. There may be greater emphasis on increased foreign investment, more equity participation by workers (co-operatives), and a strong re-emphasis of long-term economic viability as goals for Atlantic Canada's fishing industry. All will be welcome trends in a beleaguered sector. ■



- Residential building starts in Atlantic Canada are generally down, due in part to increasing interest rates and a strong performance in early 1983.
- Business investment is still slow, but appears to be picking up for 1985.
- Lower interest rates at the end of 1984 will stimulate more building.

Interest rates play a big role

Following a year of relatively stable interest rates in 1983, rates began to inch upward in 1984. By the end of July, five-year mortgage rates had increased to 15.5 per cent from 12.5 per cent earlier in the year. This movement had an immediate dampening effect on residential construction. The general slowdown in homebuilding was compounded by a slow pace of business investment.

A mid-year review of investment intentions in Atlantic Canada shows an increase in capital expenditures on construc-

tion of 7.8 per cent (to \$14.3 billion) in 1984. A quarter of this total is accounted for by housing construction, another quarter by government, and a third from capital spending in the mining sector.

While investment growth is still positive, the pace of investment has slowed. Interest rate movements have had a clear impact on investment in 1984 and can be expected to play a similar role in 1985.

The interest rate story

Recent history of interest rate movements is complex. Interest rate fluctuations in Canada are undeniably tied to movements in the United States. Canada's heavy dependence on trade with the U.S. has forced Canadian interest

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CONSTRUCTION:

rates to track those south of the border very closely.

In 1983, stable interest rates, combined with the impact of tax cuts and record defence spending, provided the stimulus for 18 months of strong growth in the U.S. This rapid growth increased fears of renewed inflation. The U.S. monetary authorities have a strong policy to not let this happen. Increased demand for consumer and business credit, caused by rapid growth, resulted in an upward drift

government programs which created a minor housing boom in 1983, but which were discontinued for 1984.

Abnormally high rates of housing starts in early 1983 may also account in part for an apparent resurgence in housing starts in August, 1984. This can also be related to a decline in interest rates which began about the same time, and which bodes well for early 1985.

Business investment struggles

Business investment to late 1984 has lagged well behind a consumer- and export-led Canadian recovery. While business investment has surged ahead in the U.S., Canadian businesses have been reluctant to follow suit. The most convincing argument put forward to account for this discrepancy is the weak capital structure of Canadian industry.

The debt burden of domestic industry has become too large relative to its equity base. The bottom line is that company profits, which are being re-invested in new plants and developments by U.S. companies, are being used to pay off large debts by Canadian companies. Investment in Canada has been very slow for some time.

A strong showing by several indicators may force a revision of the state of affairs, however, and could set the stage for a strong showing in 1985. The value of non-residential building permits was up in every province in the region except Newfoundland during the first seven months of 1984. Renewed optimism surrounding the offshore may bring this province into line by 1985. Increases in net corporate incomes in the first half of 1984 combined with declining interest rates in the second half of the year set the stage for improvements in the pace of business investment in 1985.

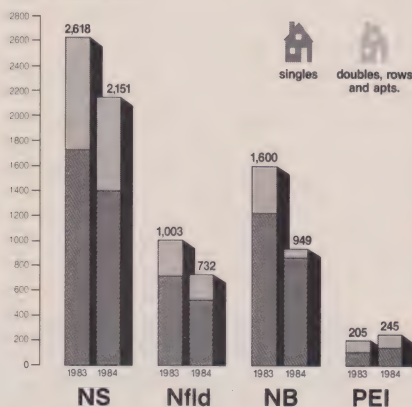
Governments, restraint vs. stimulus

In 1984, as in the past, the construction industry has relied heavily on a combination of government supported special projects, major projects and assistance programs to get it through hard times. About half the funds committed to the federal Special Recovery Projects — first announced in the April, 1983, budget — still remain. All four provinces have benefited from projects under this program. Provincial governments too were active in their support of the construction industry, committing funds to major utility developments and the construction of various buildings and institutions.

This level of support will begin to fall off in 1985, however. Federal and provincial governments face severe financial constraints resulting from a rapid building up of deficits during and after the most recent recession. These financial constraints will mean less discretionary spending and a reduced capacity for stimulative policies in the years to come. ■

HOUSING STARTS IN CENTRES OF 10,000 POPULATION AND OVER BY TYPE ATLANTIC CANADA

(January to August)



Source: Statistics Canada

in interest rates. Investors' long-standing discomfort with a massive federal deficit heightened the effect.

Canadian interest rates followed close behind, reaching a peak in late July. A slowing of the pace of U.S. economic growth in the second half of 1984 has eased the pressure on interest rates, however. Worries over growth-induced inflation have eased, and there is a perceived resolve to deal swiftly with deficits. The impact of changing interest rates is most visible in the residential construction sector.

Home construction sags in 1984

The pace of residential construction is closely tied to the availability and cost of mortgages. It is not surprising, therefore, that an upswing in mortgage rates beginning in mid-March is reflected in declines in urban housing starts in the first eight months of 1984 in every Atlantic province except Prince Edward Island. The department of veterans affairs move to Charlottetown is clearly having an impact in the latter, as it has kept demand for housing strong. The overall decline elsewhere can be attributed in part to

Pulp mills at capacity

Forestry industries usually rebound relatively quickly from times of recession. Lumber, in particular, responds rapidly to the first signs of improved conditions, as performance in 1983 demonstrated. During 1984, lumber mills have yielded first place, in terms of performance, to pulp and paper mills.

Pulp mills gallop back

Canadian pulp and paper mills operated close to capacity during 1984, and much of the national performance was pulled along by the industry in Eastern Canada. Atlantic mills have benefited substantially from this increased pace. There has been a series of increases in prices for newsprint. Each time an increase was announced, analysts doubted whether it would hold. Not only did each increase hold, it was followed by consideration of a further hike. The next round of increases appears set for early 1985.

Other factors have assisted the pulp and paper sector in Atlantic Canada. A low Canadian dollar has boosted sales to American customers. A reduction of the newsprint import quota to European Economic Community (EEC) countries (largely to give most-favored nation status to other non-EEC suppliers in Europe, such as Sweden) has not been quite as substantial as originally anticipated. And the region's mills took advantage of downtime in 1981 and 1982 to modernize their equipment and to increase efficiency.

Pulpwood production demonstrates the pace of the year to date, with substantial increases in the three principal provinces. Newfoundland especially has done well (a 63 per cent increase in the first eight months of 1984), and New Brunswick is approaching traditional healthy levels. Nova Scotia's 54 per cent increase in production partly reflects the fact that one of the province's three big mills was closed by strike action during the first five months of 1983, and this is reflected in statistics for that year.

Clouds in the sky

Pulp and paper producers are not out of the woods yet, and it would be wrong to assume the industry will have an easy time until the end of the century. Much of this outlook, as in past years, lies in



- Pulp and paper mills have bounded ahead in 1984, as increases in newsprint prices have stuck, and a low Canadian dollar has spurred sales in the United States.
- Lumber prices have drifted downwards, and stockpiles at mills have increased as higher interest rates have reduced construction activity.
- There appears to be a little more resolve in Atlantic Canada to tackle longstanding and urgent problems of forest management and wood supply.

less-than-assured supplies of fibre from the region's woods. New Brunswick has perhaps gone furthest along the road towards solving this problem, with commendable action by both public and private sectors in making forest management an integral part of the sector's responsibilities.

New Brunswick has also examined the supply potential of small private woodlots, and Nova Scotia's Royal Commission on Forestry will report in 1985.

concerns the financing to undertake modernization of the mill. The community itself is relieved, however, that its economic mainstay has a brighter future.

Lumber prices down

The region's lumber mills responded swiftly in late 1982 to initial signs that interest rates were coming down. A good pace of residential construction in Eastern Canada and the United States sustained them through 1983, but 1984 was largely a year of marking time.

Lumber prices have declined steadily throughout the year, and production over the first seven months in Nova Scotia and New Brunswick was down by 30 per cent and 11 per cent respectively. Production actually fell off sharply about mid-year as stockpiles began to accumulate. Residential construction had tailed off as interest rates went up, and Canadian home-builders were not faced with the array of government incentives to build which characterized early 1983. Although a weak Canadian dollar against the U.S. dollar favored sales to American customers (and especially benefited New Brunswick mills), relative strength of the dollar against European currencies deterred sales in important transatlantic markets.

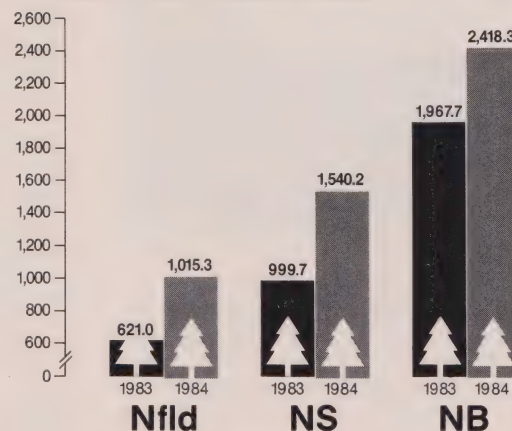
The outlook

Pulp and paper mills appear to have enough impetus built up to see them well into 1985, especially if operating with modernized, more efficient equipment. The major problem is long-standing, that of wood supply. Even in this respect, there appears to be more resolve at least to examine this grave situation, and to take the first initial steps to assuring some security of supply.

Lumber mills have rather more uncertainty in their future, depending on the movement of interest rates and the response of the construction sector to any such movements. As well, there are rumblings once again emerging from U.S. lumber interests about applying to federal authorities in Washington, D.C., for a degree of protection for what they regard as unfair Canadian competition. The future will be, to say the least, eventful.

PULPWOOD PRODUCTION ATLANTIC CANADA

(January to August—Thousand Cubic Metres)



Source: Statistics Canada

Each of the provinces has signed forest renewal agreements with the federal government, some of which supplement development agreements already in force. With the establishment of the new federal ministry of forestry, there is a little more hope for concerted action on resource management.

Shorter-term problems have surrounded some of the provinces' older mills. The mill in Corner Brook, Newfoundland, spent most of the first eight months of 1984 under threat of closure. Only in mid-September did a group emerge from Montreal which was willing to buy the mill under certain conditions. One of these involved an agreement with labor over a suitable contract, another

REGIONAL DEVELOPMENT:

Evolution and dilution

Regional development policies have been an active component of federal economic policies since the early sixties. A consensus that certain regions of Canada require special treatment emerged in the late 1950s. Certain types of areas, of which the Atlantic region was highly representative, were singled out for a variety of special programs soon after.

Early efforts were aimed at reducing poverty, particularly rural poverty, and increasing agricultural output. The concept of regional development in Canada came into being with the creation of the Atlantic Development Board (ADB) in 1962. Under its programs, efforts for the first time were concentrated on a single region.

The concept was more clearly focused with the creation of the department of regional economic expansion (DREE) in 1968 which brought a variety of programs, including those of the ADB, under one administration. DREE's purpose was clear: to reduce regional disparities in the

slow growth region east of Trois-Rivières. Its purpose, in a phrase, was to pursue regional development.

Evolution begins

Describing changes in regional development policy over time as an evolution seems appropriate. Structural changes in regional policy have occurred in an environment of criticism of programs, political expediency and various economic pressures. Its *raison d'être*, reducing regional disparities, became less of a guiding force over time.

The first stage of DREE's evolution came with the broadening of the mandate of various programs culminating with the signing of General Development Agreements (GDAs) with nine provinces in 1974 (Prince Edward Island was already covered by a Comprehensive Development Plan). These agreements provided the framework for co-operative federal-provincial action on an array of sub-agreements covering various sectors and special projects. The main industrial incentive tool, the Regional Development

Incentives Act (RDIA), was available nationwide by this time.

The declining focus on the Atlantic region and on regional development is evident from a review of DREE annual reports. DREE expenditures fell from two per cent of the federal budget in 1971 to less than one per cent 10 years later. Over the same period, the proportion of DREE's budget allocated to the Atlantic region fell from 53 per cent to 36 per cent. In addition, in 1981 the Atlantic region received only 15.2 per cent of incentive funding under the RDIA program.

New structures evolve

Growing criticism of incentive programs and the important GDAs, combined with a perceived need to rationalize numerous existing programs, resulted in a reorganization of economic development priorities early in 1982. Program responsibility of DREE and the department of industry, trade and commerce were transferred to a new department of regional industrial expansion (DRIE). A new ministry of state for economic and regional development (MSERD) acquired DREE's policy responsibility and served as cabinet's main contact point in each province on economic matters. In mid-1984, MSERD itself ceased existence as an entity, and its responsibilities were taken over directly by DRIE.

Several new or revamped policies remained with DRIE. Replacing a host of industry assistance programs was a new Industrial and Regional Development Program. The program was to be available everywhere in Canada and provide assistance to business at each stage of the production cycle, from development to restructuring. Eligibility is determined according to a disparity index based on measures of unemployment, income, and provincial fiscal capacity in each of Canada's 260 census divisions.

This particular aspect of the restructuring has drawn a lot of fire. Critics from the public and private sector have questioned aloud the appropriateness of providing assistance at the census division level. Some have voiced concern over census areas in depressed regions getting the same treatment as census areas in growth regions. Others have pointed to the development index's inability to measure chronic disparity where hidden unemployment is high.

The biggest concern relates to the appropriateness of tackling development problems at the census division level. Such areas may often lack the infrastructure or the entrepreneurs to make use of pro-

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grams. Inappropriate policies may account for reported levels of underutilization of these programs. Fitting square pegs into round holes clearly presents some problems.

Criticism has been less severe for the new Economic and Regional Development Agreements signed this past summer with each of the Atlantic Provinces. The new ERDAs are enabling documents in the co-operative spirit of the old General Development Agreements setting the guidelines for federal-provincial development undertakings for the next five or 10 years. Sub-agreements under each ERDA have been signed to address sectoral access in all four provinces.

Two main differences between the ERDAs and GDAs have become apparent. Under a GDA sub-agreement, there are guidelines for maximum federal financial share, 90 per cent in Newfoundland and 80 per cent in Nova Scotia and New Brunswick. Generally, agreements tend to be signed with the federal government shouldering its maximum share. There are no such guidelines under ERDA. Sub-agreements signed in to the second half of 1984 vary from 50/50 to 80/20 in rare cases. In no agreements signed so far has the federal share been as high as 90 per cent.

One other change is the two-tracked delivery approach where although federal and provincial portions of a sub-agreement are co-ordinated they are independently delivered. These aspects of the ERDAs worry provincial governments, who are severely pressed for the discretionary funds to put into these programs.

Outlook

Regional development policies have changed in the last 15 years. Policies have evolved from a clear focus on disparities in a part of the country with 10 per cent of the population to a country-wide multi-area development policy. Changing economic and political forces molded and continue to mold policy.

Concern over the size of the federal deficit has led several national groups (such as the Business Council on National Issues) to point to regional development programs as one area that might be examined to find ways to save money. Cut-backs in these areas would have a significant negative impact on the region. Although programs may be inappropriate in some cases and need review and improvement in others, any tampering with the concept of regional development, even its present diluted form, will probably provoke a united and vocal response from the Atlantic region.



- The value of manufacturing shipments increased solidly in 1984, due mainly to good performances in Nova Scotia and New Brunswick. Difficulties in food processing (mostly fish) in Newfoundland and Prince Edward Island have held these two provinces back.
- There is the strong likelihood of better records from heavy manufacturing industries in 1985, such as steel products and shipbuilding.
- Many manufacturing endeavors in the region remain rather sensitive to changes in interest rates.

Solid performance in 1984

A vibrant American economy has contributed to the solid performance recorded by Atlantic manufacturing industries to the end of August, 1984. Recovery in this sector of the Atlantic economy, however, did not coincide exactly with that of other sectors. Since much of Atlantic Canada's manufactured output is tied to primary resource processing, recovery in this region had to await renewed demand for end products.

Lower and stable interest rates in 1983 and early 1984 spurred consumer demand for a variety of products which are high priced and sensitive to interest rates, such as automobiles, major appliances, and machinery and equipment. Lower saving rates and improvements in disposable incomes also helped.

Incentives for manufacturers had been reduced during and immediately after the recession to abnormally low levels. By August, 1984, they were edging back to normal levels. Growth in

manufacturing employment was slow, however, with most employers slow to rehire. An upward movement in rates in 1985 could undo much of the slow and painful progress of the last two years.

Uneven performances between provinces

The value of manufacturing shipments from the Atlantic Provinces was up by 23 per cent by the end of August, 1984. This was based solely on the exceptional performance of two provinces, Nova Scotia (up 18 per cent) and New Brunswick (up 39 per cent). Shipments from Prince Edward Island and Newfoundland were more or less on a par with 1983.

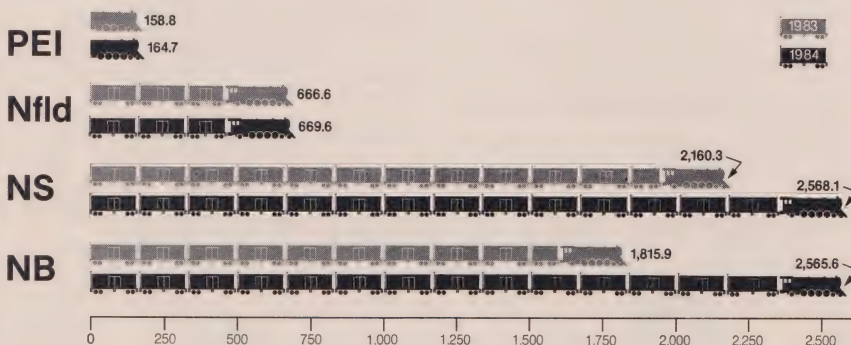
A steady performance by Nova Scotia's food and beverage sector and a dramatic improvement in shipments of forest products and transportation equipment explain most of this good record.

New Brunswick's manufacturing performance was the best in Canada because of very good performance in the large food and beverage sector combined with great improvement in the output of pulp and paper mills. This latter sector reached full capacity, after a year of assorted modernization projects, just as demand and prices recovered.

In Newfoundland, the impact of good newsprint shipments was lessened considerably by a decline in the fish products

MANUFACTURING SHIPMENTS ATLANTIC CANADA

(January to July — Millions of Dollars)



Source: Statistics Canada

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Investment still slow

Increased sales and improved profits have done little to encourage investment in the manufacturing sector. A mid-1984 survey of investment intentions showed a decline of more than 15 per cent in manufacturing capital and repair expenditures in the region, compared to a small increase for Canada as a whole. The investment pattern in the region points to a decline in purchases of new plants and equipment (down 28 per cent in 1984), but greater attention to repair expenditures (up seven per cent).

It now appears certain that significant modernization programs will begin in 1985 at the two oldest newsprint mills in Newfoundland. A \$34-million agreement between Abitibi-Price and the governments of Canada and Newfoundland, signed in late September, represents the continuation of a long-planned modernization program for the Grand Falls mill. Provisions for the purchase and modernization of the former Bowater mill in Corner Brook have yet to be confirmed, but it is expected that any capital development plan would involve spending close to \$170 million over five years.

The \$2.6-billion frigate replacement program was expected to begin late in 1984 or early in 1985. With Saint John Shipbuilding and Drydock as main contractor for the six vessels, New Brunswick's heavy manufacturing sector will receive a much needed boost in 1985.

Nova Scotia's heavy industry sector also did better in 1984 with good performance by Sydney Steel and the rail car plant in Trenton. Sydney Steel has orders well into 1985 from CN Rail. A modernization program at Halifax Industry's shipyard, along with a number of signed repair and construction contracts, saw the work force swell to 600 in late 1984 from only 40 a year earlier.

Prince Edward Island's manufacturing performance record in 1984 is not expected to improve much in 1985. The reopening of



the Georgetown Seafoods plant is still in doubt. The bright spot on the Island is small manufacturing enterprises, but all industries are rather severely constrained in competition by extremely high electrical power rates.

Although near-term prospects are better than at any time since 1981, the region's manufacturing sector still faces a number of nagging issues. Pulp and paper mills and lumber production in every part of the region are facing serious wood supply problems. Shortfalls are predicted in several areas due to a combination of insect damage, past harvesting practices, and insufficient commitment to silviculture.

The fishing industry continues to be troubled with losses despite the commitment of about \$200 million by government toward the implementation of new policies recommended by the Kirby report. Also, about \$300 million in cash and equity has been spent on reorganization of this troubled sector.

With poor prospects for sales of CANDU reactors, Cape Breton's two heavy water plants are likely to be examined closely by a federal government anxious to trim its deficit. Industrial policies, particularly those providing incentives to business locating in slow regions, may receive similar close scrutiny.

Outlook

While the region's manufacturing sector performed well on average in 1984, it is clear some serious structural problems remain. The key for 1985 will be interest rates. If the long-term trend is for higher rates, serious setbacks can be expected among manufacturers who serve certain sensitive sectors, such as the construction and automobile industries.

The general slowing in economic growth would eventually affect the demand for most other goods as well. If governments in Canada and the United States are able to deal effectively with deficits, pressure on interest rates, and therefore on the manufacturing sector, will ease. ■

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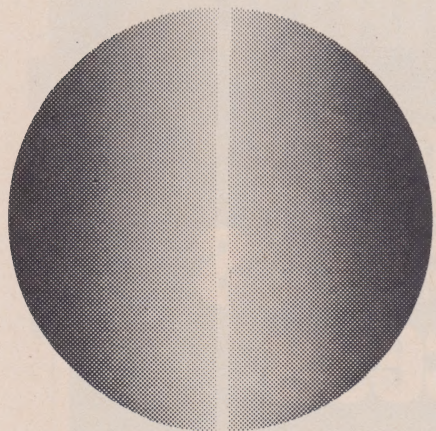


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AP28

THE OUTLOOK:

1985 and beyond

Rarely have economic forecasters been so uncertain as in 1984. There is a brand new federal government in Ottawa. Although North American economic performance in 1983 and 1984 has been generally excellent, memories of 1981 and 1982 are still sharp and affect consumer and business confidence. Government deficits are a major concern.

All of these factors, and many more besides, make predictions especially hazardous. There is a consensus that the pace of economic activity will be slower in 1985, but the magnitude of this slower pace is the subject of widely divergent opinions.

As well, whether this slowdown is good or bad provokes arguments. On the positive side, some analysts maintain it reflects moderation of both U.S. and Canadian expansion to more manageable and non-inflationary rates. On the negative side, others say any slowdown will aggravate an already serious unemployment problem.

Deficits to the fore

Although the spectre of government deficits is by no means new in recent economic analysis, it takes on a heightened profile as 1985 approaches. This is mainly because of a new federal government with an expressed intent to reduce the deficit substantially and urgently.

Governments have two options to reduce a deficit — increase revenues and/or reduce spending. For governments to increase their revenues, taxes must increase. To reduce spending, programs and policies must be examined carefully. The initial thrust of the federal government appears to be to reduce spending through selective cuts. These may affect the Atlantic economy in many ways. The programs to be examined include those for regional development, those to subsidize transportation within the region and those which offer incentives for offshore energy exploration.

Any reduction in spending on these (and many other) programs will affect most levels of Atlantic society. Any reduction of transportation subsidies will affect industries' ability to compete. Removal of supports for industries which would otherwise be regarded as non-economic directly affects jobs, as would any significant reduction of offshore incentives.

There appears to be a growing consensus that action to cut the deficit is overdue. This does not deny, however, the short- or medium-term discomfort which could result. This could get worse if initial spending cuts are ineffective and the government's attention turns to other (including social) programs.

Eyes south

There appears to be much more am-

bivalence in the United States about resolve to reduce its deficit as a new presidential term begins. Of course, failure to reduce a substantial deficit inhibits creation of income and employment and at some stage will affect demand for Atlantic products.

There is concern, as well, that Americans will tackle their substantial trade deficit by means of a more protectionist attitude. There have been attempts over the past two or three years to impose some kind of import controls on such items as potatoes and lumber. Fortunately, these have failed, and the Reagan administration, to its credit, has also shown itself unsympathetic to barriers to trade on several occasions.

As U.S. fishing interests are currently calling for protection from Canadian fish imports, however, this may be a test of the American mood in this respect. Any restriction on one or another of the Atlantic region's principal export goods in U.S. markets would be a severe blow.

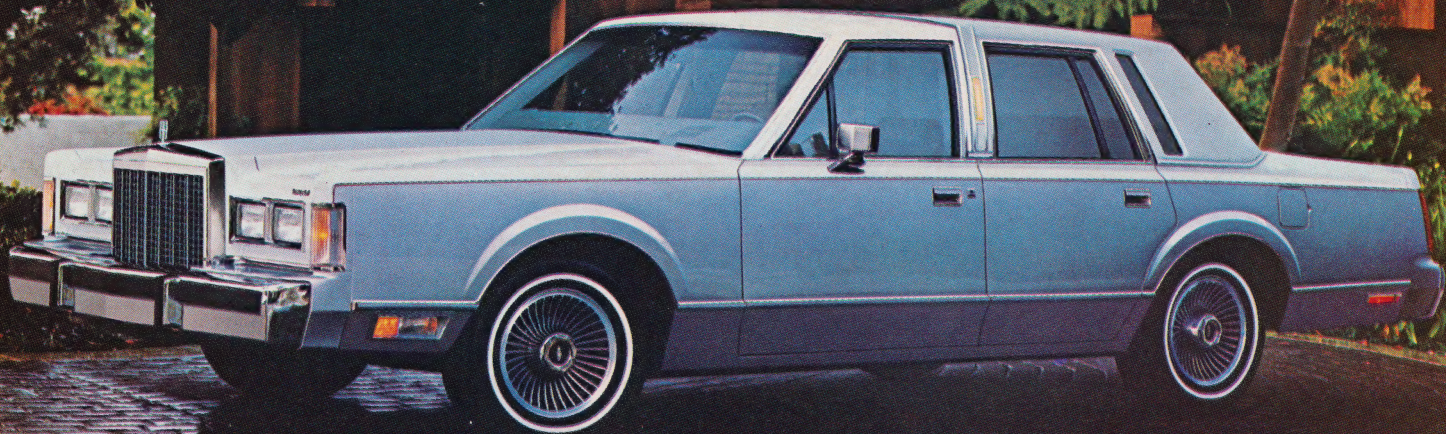
Summary: the outlook for 1985

Although it is sobering to contemplate challenges facing Atlantic Canadians, these should not obscure the fact that three of the four provinces will at least match the national rate of real growth (three to four per cent) in 1984. There is general consensus that this pace will moderate in 1985 as economic managers pursue the goals of sustainable but relatively unexciting expansion. A national rate of growth of two to three per cent is forecast.

There will be a corresponding moderation in the Atlantic Provinces, although Nova Scotia and New Brunswick will approximate or even exceed the national average. As well, Prince Edward Island could match its good showing of 1984, depending on biological or meteorological factors.

Newfoundland will still languish a little in 1985. The fishery remains a problem, and slower growth of consumer spending in North America will translate into reduced iron ore shipments from Labrador. Real growth will likely not exceed 1.5 per cent.

The Atlantic economy still holds great potential for prosperity, and events of 1985 could help realize the beginnings of this prosperity. An offshore management agreement for Newfoundland would be a great boost to the province. The other provinces have shown great resilience and resourcefulness in shoring up traditional and established industries. Such experience, in itself, allows a good measure of confidence in facing the uncertain times of the mid-1980s.



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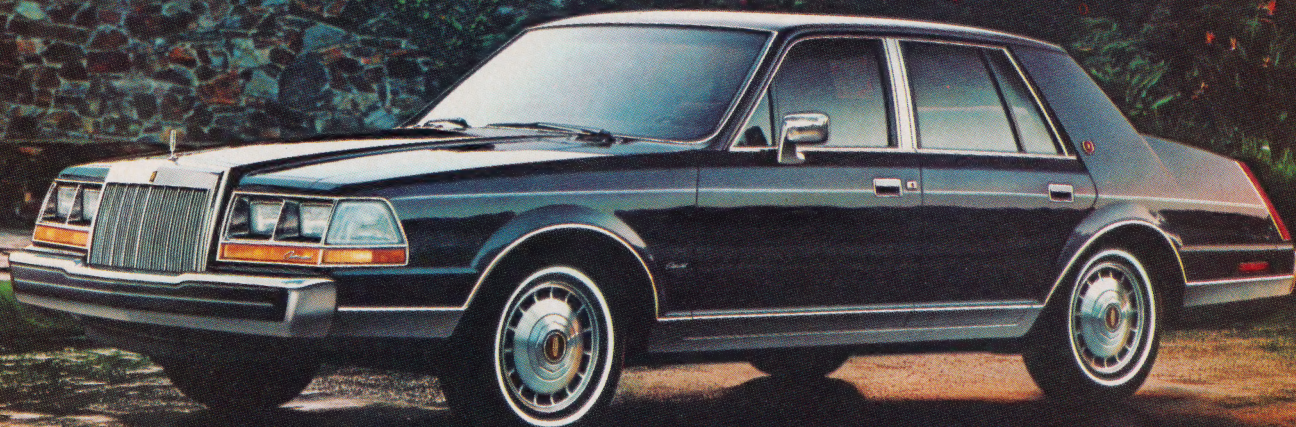
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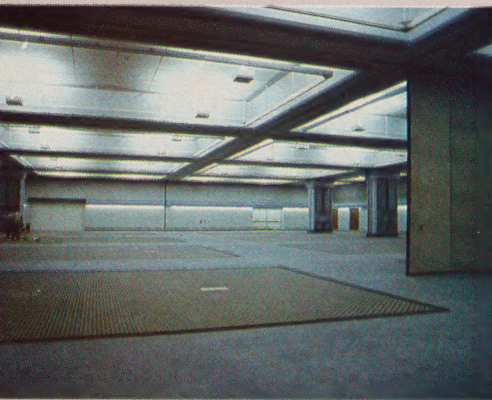
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